Discovery White Paper

O.C. Tanner Company | The Jackson Organization

RECOGNITION PAYS

Looking for proof that recognizing excellent associate performance leads to better business outcomes?

By the O.C. Tanner Company

With Research Data from The Jackson Organization

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EMPLOYEE RECOGNITION AND COMPANY PROFITABILITY: MAKING THE CONNECTION

Your gut instinct told you employee recognition impacts the bottom line. Now, the data proves it.

Recent research commissioned by the O.C. Tanner Company and conducted by noted research firm The Jackson Organization of Columbia, Maryland, shows that from every angle, every financial metric, *every way of looking at it*, investing in recognizing excellence is strongly associated with the best financial performance.

The study included 26,000 employees at all levels in 31 organizations of varying sizes and profitability. In addition to answering general questions about their level of engagement with their firms, respondents were asked to state their level of agreement on a scale to the question: "My organization recognizes excellence." The responses by organization were averaged and grouped into four quartiles. Those organizational results were then compared with these profitability measures:

- Return on Equity
- Return on Assets
- Operating Margin

Even leaders who have acknowledged a link between employee recognition and financial success will be surprised by the strength and breadth of the connection. For example, in the analysis of Return on Equity to the question, "My organization recognizes excellence," the lowest quartile of companies saw a 2.4% return, but the numbers grow in each quartile up to an 8.7% return from the top quartile. In other words, companies that effectively recognize excellence enjoy a return that is *more than triple the return* of companies that don't.

For leaders, this dramatically illustrates a strong (but often unrecognized) link between strategic employee recognition and profitability.

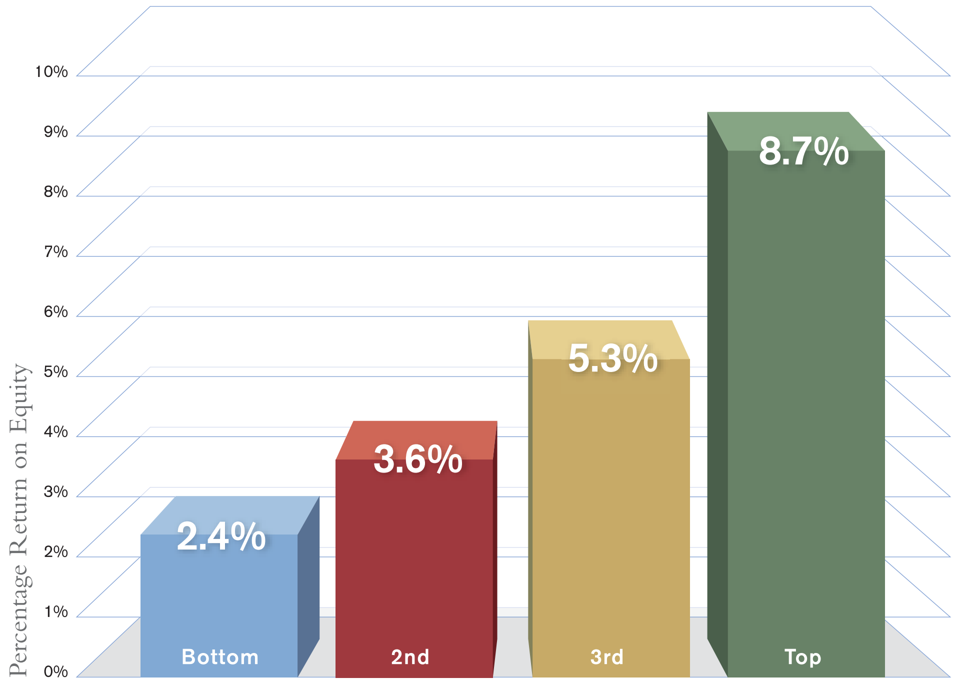
"This is a major study with scientifically valid data from more than 26,000 employees in health care organizations, with an error range of ±0.6%," said Karen Endresen, Ph.D., President of The Endresen Institute, a research division of The Jackson Organization. "Up until this study, the link between recognition and financial performance was largely anecdotal. Recognition was considered by some to be an emotional afterthought, while those who believed that effective recognition would drive results had no hard data to prove it. This study takes recognition results from myth to reality – from the soft side of business to a proven business essential."

RECOGNITION AND RETURN ON EQUITY

Return on Equity (ROE) is a critical measure that encompasses profitability, asset management and financial leverage. A very strong connection is shown between recognition and ROE. According to the data, companies that effectively recognize excellence enjoyed an ROE more than three times higher than the return experienced by firms that don't.

RETURN ON EQUITY

Return on Equity is calculated by taking the fiscal year's earnings and dividing them by the average shareholder's equity for that year. It is used as a general indication of how much profit a company is able to generate given the investment provided by its shareholders.



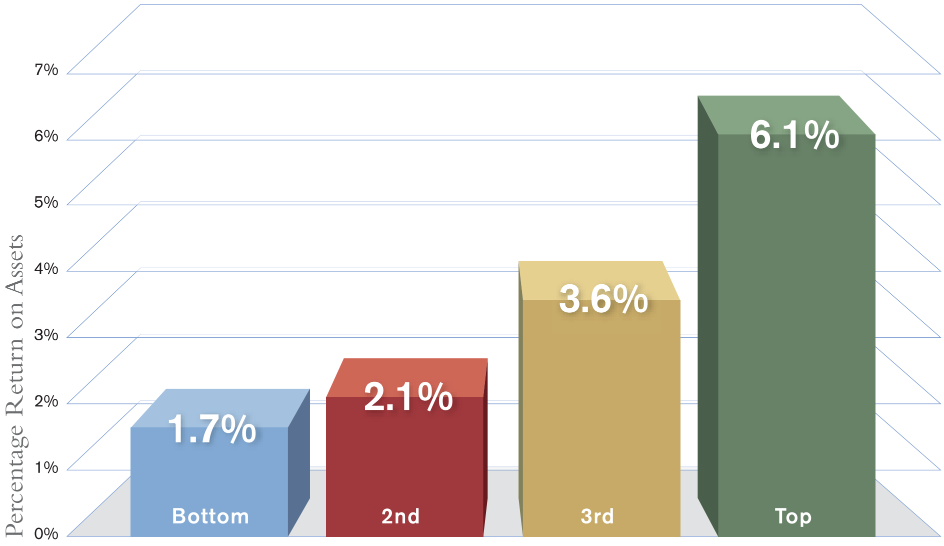
Performance by Quartile on "My organization recognizes excellence."

RECOGNITION AND RETURN ON ASSETS

An equivalent connection is shown between recognition and Return on Assets (ROA). According to the data, companies that effectively recognize excellence enjoyed an ROA more than three times higher than the return experienced by firms that don't. Since ROA is a measure of a firm's effectiveness in using the assets at hand to generate earnings, organizations that recognize employees can do a lot more with existing assets than those that neglect this important tool.

RETURN ON ASSETS

Return on Assets is equal to a fiscal year's earnings divided by total assets. This number tells you how much profit a company has achieved for each dollar of assets utilized.



Performance by Quartile on "My organization recognizes excellence."

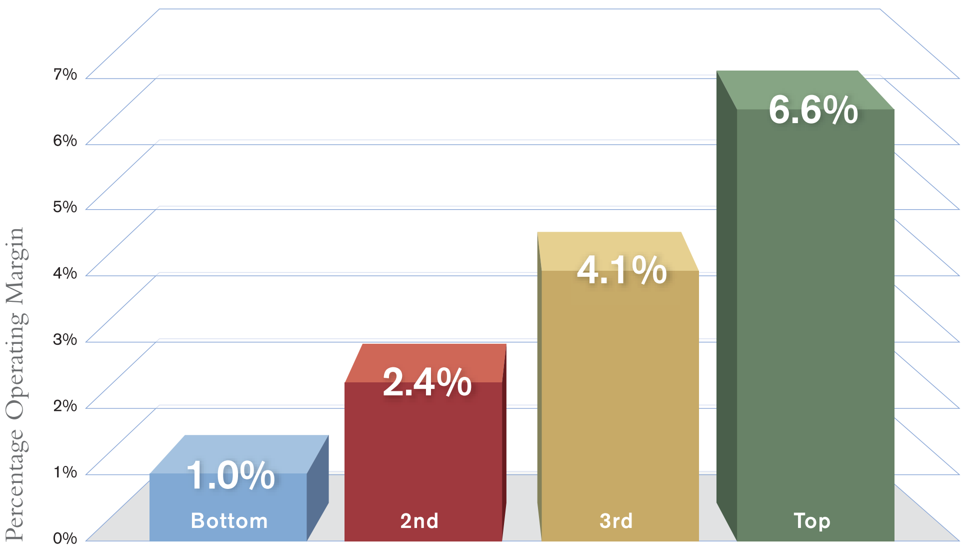
RECOGNITION AND OPERATING MARGIN

Operating Margin is another measurement of an organization's efficiency. In general, businesses with higher Operating Margins tend to have lower fixed costs and better gross margins. That gives them more pricing flexibility and an added measure of safety during tough economic times.

Of all the financial measurements, employee recognition impacts Operating Margin the most significantly. According to the data, companies in the highest quartile of agreement with the statement, "My organization recognizes excellence," reported an Operating Margin of 6.6 percent, while those in the lowest quartile reported 1 percent.

OPERATING MARGIN

Operating Margin is the ratio of operating income to sales. Operating Margin shows how much a company makes from each dollar of sales (before interest and taxes).



Performance by Quartile on "My organization recognizes excellence."

SUMMARY

EMPLOYEE RECOGNITION AND COMPANY PROFITABILITY: MAKING THE CONNECTION

These results illustrate two important truths: 1) An organization's ability to recognize appropriate performance in its workforce can dramatically impact its profitability; and 2) An organization wishing to improve its bottom line may look toward employee recognition – typically an untapped business strategy.

In those companies that have developed an effective recognition culture, O.C. Tanner expects to find an organization with a strategic, simple and measured way to recognize and reward the right employee behaviors. In this type of culture, employees understand that their above-and-beyond actions – especially when aligned with corporate goals or values – will be noticed by someone in management, will be acknowledged and recognized with an appropriate award, and will be celebrated with the presentation of that award in front of their peers. In such a culture, employees are more engaged in their work, suggest new ideas and processes more frequently, are focused closely on client satisfaction, and simply care more about the success of their team and their enterprise.

And that kind of attitude, that culture, *that commitment from employees*, shows up in the organization's bottom line. In short, invest in recognition and you will be rewarded with more than happier associates. You'll have a stronger bottom line, improved strategic position, and more freedom to dominate your market.

> "What this data shows us, in a very dramatic way, is that recognition is one of the key characteristics of a great organization. Recognition, often thought of as the softer side of business, is now proved to be a core attribute of great managers and companies. It is a simple truth: we work harder at places where we feel recognized and valued for our unique contributions. And valued and engaged employees bring great value and profit to their organizations."
>
> ***Chester Elton,***
> *Wall Street Journal best-selling author*
> *of the Carrot series of management books*

O.C. Tanner is the world's leading provider of employee recognition solutions including performance awards, service awards and other incentives. O.C. Tanner offers strategic solutions for employee motivation; the latest in recognition ideas; and high-tech, online recognition tools. Learn more at www.octanner.com.

Adrian Gostick, Director
O.C. Tanner Company
1930 S. State Street
Salt Lake City, UT 84115
Toll Free: 800-828-8902
Phone 801-493-3122
adrian.gostick@octanner.com

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Allan H. Acton, Senior Vice President
The Jackson Organization
6996 Columbia Gateway Dr., Suite 202
Columbia, MD 21046
Toll-free: 800-473-1771
Phone: 410-884-0084
aacton@jacksonorganization.com